

RESOLUTION OF THE BOSTON REDEVELOPMENT AUTHORITY
RE: FINAL DESIGNATION OF REDEVELOPER
APPROVAL OF FINAL WORKING DRAWINGS AND SPECIFICATIONS
AND PROPOSED DISPOSITION OF PARCEL 41D
IN THE SOUTH END URBAN RENEWAL AREA
PROJECT NO. MASS. R-56

WHEREAS, the Boston Redevelopment Authority, (hereinafter referred to as the "Authority"), has entered into a contract for loan and capital grant with the Federal Government under Title I of the Housing Act of 1949, as amended, which contract provides for financial assistance in the hereinafter identified Project; and

WHEREAS, the Urban Renewal Plan for the South End Urban Renewal Area, Project No. Mass. R-56, (hereinafter referred to as the "Project Area"), has been duly reviewed and approved in full compliance with local, State and Federal law; and

WHEREAS, the Authority is cognizant of the conditions that are imposed in the undertaking and carrying out of urban renewal projects with Federal financial assistance under said Title I, including those prohibiting discrimination because of race, color, sex, religion or national origin; and

WHEREAS, Stride Rite Corporation have expressed an interest in and/or have submitted a satisfactory proposal for the development of Disposition Parcel 41D in the South End Urban Renewal Area; and

WHEREAS, the Authority is cognizant of Chapter 30, Sections 61 through 62H of the Massachusetts General Laws, as amended, with respect to minimizing and preventing damage to the environment:

NOW, THEREFORE, BE IT RESOLVED BY THE BOSTON REDEVELOPMENT AUTHORITY:

1. That Stride Rite Corporation be and hereby is finally designated as Redeveloper(s) of Parcel 41D in the South End Urban Renewal Area.
2. That it is hereby determined that Stride Rite Corporation possess the qualifications and financial resources necessary to acquire and develop the land in accordance with the Urban Renewal Plan for the Project Area.
3. That disposal of said Parcel by negotiation is the appropriate method of making the land available for redevelopment.
4. That the Final Working Drawings and Specifications submitted by Stride Rite Corporation for the development of Parcel 41D conform in all respects to the Urban Renewal Plan for the Project Area, and that said Final Working Drawings and Specifications be and hereby are approved.
5. That it is hereby found and determined that the proposed development will not result in significant damage to or impairment of the environment and further, that all practicable feasible means and measures have been taken and are being utilized to avoid or minimize damage to the environment.

6. That the Director is hereby authorized for and in behalf of the Boston Redevelopment Authority to execute and deliver a Land Disposition Agreement and Deed conveying Parcel 41D to Stride Rite Corporation, said documents to be in the Authority's usual form.

7. That the Secretary is hereby authorized and directed to publish notice of the proposed disposal transaction in accordance with Section 105(E) of the Housing Act of 1949, as amended, including information with respect to the "Redeveloper's Statement for Public Disclosure" (Federal Form H-6004).

PART I

HUD-4004
(9-69)

REDEVELOPER'S STATEMENT FOR PUBLIC DISCLOSURE¹

A. REDEVELOPER AND LAND

1. a. Name of Redeveloper: The Stride Rite Corporation
- b. Address and ZIP Code of Redeveloper: 5 Cambridge Center, Cambridge, MA 02142
- c. IRS Number of Redeveloper: 04-1399290
2. The land on which the Redeveloper proposes to enter into a contract for, or understanding with respect to, the purchase or lease of land from

Boston Redevelopment Authority
(Name of Local Public Agency)

in South End Redevelopment Area
(Name of Urban Renewal or Redevelopment Project Area)

in the City of Boston, State of Massachusetts,
is described as follows²:

BRA Parcel 41 D
Corner of Fellows and Pike Streets
11,318 sq. ft.

3. If the Redeveloper is not an individual doing business under his own name, the Redeveloper has the status indicated below and is organized or operating under the laws of Massachusetts:

- ☒ A corporation.
- ☐ A nonprofit or charitable institution or corporation.
- ☐ A partnership known as
- ☐ A business association or a joint venture known as
- ☐ A Federal, State, or local government or instrumentality thereof.
- ☐ Other (explain)

4. If the Redeveloper is not an individual or a government agency or instrumentality, give date of organization:
1919

5. Names, addresses, title of position (if any), and nature and extent of the interest of the officers and principal members, shareholders, and investors of the Redeveloper, other than a government agency or instrumentality, are set forth as follows:

See Annual Report

¹If space on this form is inadequate for any requested information, it should be furnished on an attached page which is referred to under the appropriate numbered item on the form.

²Any convenient means of identifying the land (such as block and lot numbers or street boundaries) is sufficient. A description by metes and bounds or other technical description is acceptable, but not required.

- a. If the Redeveloper is a corporation, the officers, directors or trustees, and each stockholder owning more than 10% of any class of stock¹
- b. If the Redeveloper is a nonprofit or charitable institution or corporation, the members who constitute the board of trustees or board of directors or similar governing body.
- c. If the Redeveloper is a partnership, each partner, whether a general or limited partner and either the percent of interest or a description of the character and extent of interest.
- d. If the Redeveloper is a business association or a joint venture, each participant and either the percent of interest or a description of the character and extent of interest.
- e. If the Redeveloper is some other entity, the officers, the members of the governing body, and each person having an interest of more than 10%.

NAME, ADDRESS, AND ZIP CODE

POSITION TITLE (if any) AND PERCENT OF INTEREST OR
DESCRIPTION OF CHARACTER AND EXTENT OF INTEREST

DOES NOT APPLY

6. Name, address, and nature and extent of interest of each person or entity (not named in response to Item 5) who has a beneficial interest in any of the shareholders or investors named in response to Item 5 which gives such person or entity more than a computed 10% interest in the Redeveloper (for example, more than 10% of the stock in a corporation which holds 50% of the stock of the Redeveloper, or more than 50% of the stock in a corporation which holds 10% of the stock of the Redeveloper):

NAME, ADDRESS, AND ZIP CODE

DESCRIPTION OF CHARACTER AND EXTENT OF INTEREST

DOES NOT APPLY

7. Names (if not given above) of officers and directors or trustees of any corporation or firm listed under Item 5 or Item 6 above:

See Annual Report Attached

8. RESIDENTIAL REDEVELOPMENT OR REHABILITATION

(The Redeveloper is to furnish the following information, but only if land is to be redeveloped or rehabilitated in whole or in part for residential purposes.)

¹ If a corporation is required to file periodic reports with the Federal Securities and Exchange Commission under Section 13 of the Securities Exchange Act of 1934, so state under this Item 5. In such case, the information referred to in this Item 5 and in Items 6 and 7 is not required to be furnished.

1. State the Redeveloper's estimates, exclusive of payment for the land, for:

- a. Total cost of any residential redevelopment. \$
- b. Cost per dwelling unit of any residential redevelopment. \$
- c. Total cost of any residential rehabilitation \$
- d. Cost per dwelling unit of any residential rehabilitation \$

2. a. State the Redeveloper's estimate of the average monthly rental (if to be rented) or average sale price (if to be sold) for each type and size of dwelling unit involved in such redevelopment or rehabilitation:

TYPE AND SIZE OF DWELLING UNIT	ESTIMATED AVERAGE	ESTIMATED AVERAGE
	MONTHLY RENTAL	SALE PRICE
	\$	\$

b. State the utilities and parking facilities, if any, included in the foregoing estimates of rentals:

c. State equipment, such as refrigerators, washing machines, air conditioners, if any, included in the foregoing estimates of sales prices:

CERTIFICATION

I (We)¹ The Stride Rite Corporation
certify that this Redeveloper's Statement for Public Disclosure is true and correct to the best of my (our) knowledge and belief.²

Dated: _____

Dated: March 5, 1982

Signature

Myke J. Horby
Signature

Title

Executive Vice President
Title

Address and ZIP Code

5 Cambridge Center, Cambridge, MA 02142
Address and ZIP Code

¹ If the Redeveloper is an individual, this statement should be signed by such individual; if a partnership, by one of the partners; if a corporation or other entity, by one of its chief officers having knowledge of the facts required by this statement.
² Penalty for False Certification: Section 1001, Title 18, of the U.S. Code, provides a fine of not more than \$10,000 or imprisonment of not more than five years, or both, for knowingly and willfully making or using any false writing or document, knowing the same to contain any false, fictitious or fraudulent statement or entry in a matter within the jurisdiction of any Department of the United States.

PART II

HUD-6004
(7-69)

REDEVELOPER'S STATEMENT OF QUALIFICATIONS AND FINANCIAL RESPONSIBILITY

(For Confidential Official Use of the Local Public Agency and the Department of Housing and Urban Development. Do Not Transmit to HUD Unless Requested or Item 3b is Answered "Yes.")

1. a. Name of Redeveloper: The Stride Rite Corporation
- b. Address and ZIP Code of Redeveloper: 5 Cambridge Center, Cambridge, MA 02142
2. The land on which the Redeveloper proposes to enter into a contract for, or understanding with respect to, the purchase or lease of land from

Boston Redevelopment Authority
(Name of Local Public Agency)

in South End Redevelopment Area
(Name of Urban Renewal or Redevelopment Project Area)

in the City of Boston, State of Massachusetts
is described as follows:

BRA Parcel 41 D
Corner of Fellows and Pike Streets
11,318 sq. ft.

3. Is the Redeveloper a subsidiary of or affiliated with any other corporation or corporations or any other firm or firms?
☐ YES ☒ NO
 If Yes, list each such corporation or firm by name and address, specify its relationship to the Redeveloper, and identify the officers and directors or trustees common to the Redeveloper and such other corporation or firm.

4. a. The financial condition of the Redeveloper, as of December 1, 1981, is as reflected in the attached financial statement.

(NOTE: Attach to this statement a certified financial statement showing the assets and the liabilities, including contingent liabilities, fully itemized in accordance with accepted accounting standards and based on a proper audit. If the date of the certified financial statement precedes the date of this submission by more than six months, also attach an interim balance sheet not more than 60 days old.)

- b. Name and address of auditor or public accountant who performed the audit on which said financial statement is based:

Coopers & Lybrand
100 Federal Street
Boston, MA

5. If funds for the development of the land are to be obtained from sources other than the Redeveloper's own funds, a statement of the Redeveloper's plan for financing the acquisition and development of the land:

6. Sources and amount of cash available to Redeveloper to meet equity requirements of the proposed undertaking:

a. In banks:

NAME, ADDRESS, AND ZIP CODE OF BANK

AMOUNT

\$

See Annual Report

b. By loans from affiliated or associated corporations or firms:

NAME, ADDRESS, AND ZIP CODE OF SOURCE

AMOUNT

\$

c. By sale of readily salable assets:

DESCRIPTION

MARKET VALUE

MORTGAGES OR LIENS

\$

\$

7. Names and addresses of bank references:

First National Bank of Boston
100 Federal Street
Boston, MA

8. a. Has the Redeveloper or (if any) the parent corporation, or any subsidiary or affiliated corporation of the Redeveloper or said parent corporation, or any of the Redeveloper's officers or principal members, shareholders or investors, or other interested parties (as listed in the responses to Items 5, 6, and 7 of the Redeveloper's Statement for Public Disclosure and referred to herein as "principals of the Redeveloper") been adjudged bankrupt, either voluntary or involuntary, within the past 10 years? ☐ YES ☒ NO

If Yes, give date, place, and under what name.

- b. Has the Redeveloper or anyone referred to above as "principals of the Redeveloper" been indicted for or convicted of any felony within the past 10 years? ☐ YES ☒ NO

If Yes, give for each case (1) date, (2) charge, (3) place, (4) Court, and (5) action taken. Attach any explanation deemed necessary.

9. a. Undertakings, comparable to the proposed redevelopment work, which have been completed by the Redeveloper or any of the principals of the Redeveloper, including identification and brief description of each project and date of completion:

DOES NOT APPLY

b. If the Redeveloper or any of the principals of the Redeveloper has ever been an employee, in a supervisory capacity, for construction contractor or builder on undertakings comparable to the proposed redevelopment work, name of such employee, name and address of employer, title of position, and brief description of work:

10. Other federally aided urban renewal projects under Title I of the Housing Act of 1949, as amended, in which the Redeveloper or any of the principals of the Redeveloper is or has been the redeveloper, or a stockholder, officer, director or trustee, or partner of such a redeveloper:

11. If the Redeveloper or a parent corporation, a subsidiary, an affiliate, or a principal of the Redeveloper is to participate in the development of the land as a construction contractor or builder:

a. Name and address of such contractor or builder:

b. Has such contractor or builder within the last 10 years ever failed to qualify as a responsible bidder, refused to enter into a contract after an award has been made, or failed to complete a construction or development contract? ☐ YES ☒ NO

If Yes, explain:

c. Total amount of construction or development work performed by such contractor or builder during the last three years: \$ _____.

General description of such work:

d. Construction contracts or developments now being performed by such contractor or builder:

IDENTIFICATION OF
CONTRACT OR DEVELOPMENT

LOCATION

AMOUNT
\$

DATE TO BE
COMPLETED

e. Outstanding construction-contract bids of such contractor or builder:

AWARDING AGENCY

AMOUNT
\$

DATE OPENED

12. Brief statement respecting equipment, experience, financial capacity, and other resources available to such contractor or builder for the performance of the work involved in the redevelopment of the land, specifying particularly the qualifications of the personnel, the nature of the equipment, and the general experience of the contractor:

13. a. Does any member of the governing body of the Local Public Agency to which the accompanying bid or proposal is being made or any officer or employee of the Local Public Agency who exercises any functions or responsibilities in connection with the carrying out of the project under which the land covered by the Redeveloper's proposal is being made available, have any direct or indirect personal interest in the Redeveloper or in the redevelopment or rehabilitation of the property upon the basis of such proposal? ☐ YES ☒ NO

If Yes, explain.

b. Does any member of the governing body of the locality in which the Urban Renewal Area is situated or any other public official of the locality, who exercises any functions or responsibilities in the review or approval of the carrying out of the project under which the land covered by the Redeveloper's proposal is being made available, have any direct or indirect personal interest in the Redeveloper or in the redevelopment or rehabilitation of the property upon the basis of such proposal? ☐ YES ☒ NO

If Yes, explain.

14. Statements and other evidence of the Redeveloper's qualifications and financial responsibility (other than the financial statement referred to in item 4c) are attached hereto and hereby made a part hereof as follows:

CERTIFICATION

I (We) The Stride Rite Corporation

certify that this Redeveloper's Statement of Qualifications and Financial Responsibility and the attached evidence of the Redeveloper's qualifications and financial responsibility, including financial statements, are true and correct to the best of my (our) knowledge and belief.²

Dated: _____

Dated: March 5, 1982

Signature

Signature

Title

Executive Vice President

Title

Address and ZIP Code

5 Cambridge Center, Cambridge, MA 02142
Address and ZIP Code

¹ If the Redeveloper is a corporation, this statement should be signed by the President and Secretary of the corporation; if an individual, by such individual; if a partnership, by one of the partners; if an entity not having a president and secretary, by one of its chief officers having knowledge of the financial status and qualifications of the Redeveloper.

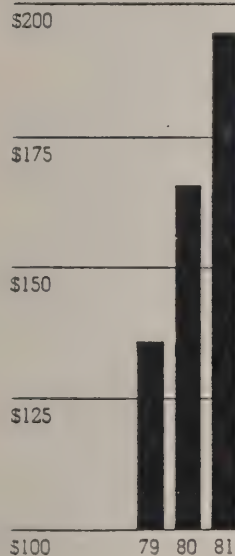
² Penalty for False Certification: Section 1001, Title 18, of the U.S. Code, provides a fine of not more than \$10,000 or imprisonment of not more than five years, or both, for knowingly and willfully making or using any false writing or document, knowing the same to contain any false, fictitious or fraudulent statement or entry in a matter within the jurisdiction of any Department



Financial Highlights	1981	1980	Percent Change
Net sales	\$194,829,000	\$166,018,000	17.4%
Income before federal income taxes	16,521,000	12,050,000	37.1%
Net income	9,165,000	6,317,000	45.1%
Net income per common share	2.95	2.08	41.8%
Dividends per common share	1.24	1.16	6.9%
Current assets	86,261,000	75,188,000	14.7%
Total assets	112,062,000	93,777,000	19.5%
Working capital	50,433,000	53,201,000	(5.2%)
Long-term debt	15,847,000	19,723,000	(19.7%)
Stockholders' equity	56,179,000	49,767,000	12.9%
Net income as a percent of average stockholders' equity	17.3%	13.1%	-
Book value per common share outstanding. .	17.73	16.10	10.1%
Common shares outstanding at end of year .	3,168,000	3,092,000	2.5%

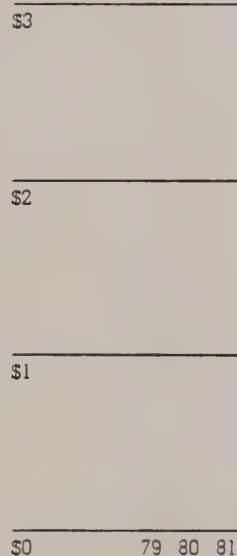
Net Sales

(in Millions of Dollars)



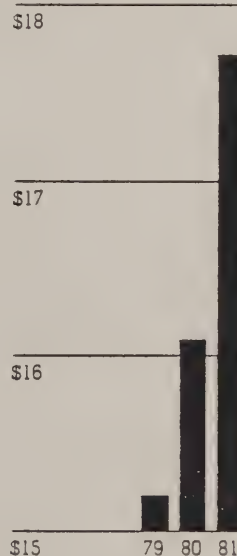
Net Income
Per Common Share

(in Dollars)



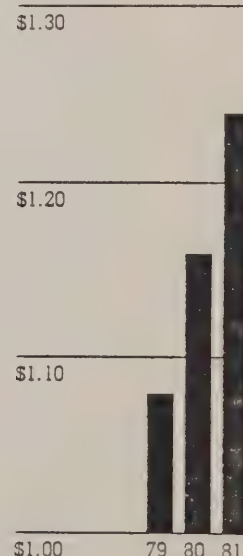
Book Value
Per Common Share

(in Dollars)



Dividends
Per Common Share

(in Dollars)



To Our Shareholders

Stride Rite continued its growth in 1981 in the face of difficult conditions in the industry and the economy. This growth reflects the new opportunities developed through its diversification.

Sperry Top-Sider, Inc. and Stride Rite International, Ltd., the Company's two newest divisions, accounted for 23% of our sales. Sperry Top-Sider broadened its casual and recreational footwear lines, adding complementary apparel and accessories marketed as the Sperry 'Lifestyle' concept. Consumer acceptance has led to solid sales increases.

The International Division has the strongest growth pattern and earned an excellent return-on-investment. The division has become a leading importer of athletic footwear for national brands and retail chains, and is developing distribution in Japan, Australia and the European markets.

The Children's Footwear Division continues to be the largest source of earnings, despite the relative maturity of its market. The development of a more comprehensive product line positions this division for growth in 1982. An aggressive dealer assistance program has been launched to expand the network of independent Stride Rite dealers.

Adjusting to the prolonged recession in its work shoe market, the Herman Shoe Division is expanding its outdoor boot lines. Its margins improved in 1981 and the outlook for the coming year is for continued progress.

The Retail Division opened 13 Overland Trading Co. stores in 1981 as well as 16 booteries. Start-up costs for these units have been absorbed, resulting in lower earnings for the division. Total sales for the division were up 27% from the 1980 level and have doubled in the past three years.

A new agreement was concluded with Uniroyal, Inc., postponing for one year the second loan payment on financing provided for The Keds Corporation. Keds will continue to operate as an unconsolidated subsidiary.

Corporate and divisional offices relocated to the new Cambridge Center in Cambridge, Massachusetts in August. We now have a centralized headquarters in a contemporary environment, with space to accommodate our growth. Easy access was an important consideration in selecting this location within metropolitan Boston.

The transfer of divisional offices from our Boston building enabled us to consolidate warehousing operations at that facility. Sperry warehousing was moved from Atlanta, Georgia and children's sneakers from Salem, New Hampshire. This consolidation has improved service to our dealers.

In order to improve efficiency, functions such as purchasing and advertising have been centralized and are now corporate departments servicing the individual needs of the divisions. Direction of all manufacturing operations has been centralized under the newly created position of Corporate Vice President - Manufacturing, which now permits the divisional presidents and their organizations to focus on marketing and sales activities.

Our most important priorities for 1982 are continuing to design and build the highest quality into our products and producing them more efficiently. While Stride Rite has gone through a period of diversification, each product line shares one common denominator - consistency of quality.

Quality is an attitude that must be rigorously and thoughtfully cultivated and sustained. We believe that initiatives launched this year and supported by everyone within the Company enhance the prospects for continuing growth at Stride Rite in the coming year.

Sam Slosberg, Chairman of the Board, died on February 11, 1982. His integrity was matched only by his commitment to excellence and his character is indelibly imprinted on this Company. We were privileged to share his good counsel and common sense.

Sincerely yours,



Arnold Hiatt
President

February 12, 1982

Children's shoes are the base on which Stride Rite has built the diversified footwear business it is today.

Concern for quality and durability in footwear is passed from one generation to another. Many of today's parents, who took their first step in Stride Rite shoes, often ask for Stride Rite by name when buying footwear for their children.

Quality and service have been synonymous with Stride Rite products for many years. This commitment has built the most respected name in children's footwear and has guided our steady growth and diversification.

Engineering shoes to provide superior fit, crucial for growing children, is indicative of our emphasis on addressing the needs of a specific market. This kind of specialization has led us into work, athletic, boating, hiking and general recreation footwear markets. Our brands are classics of American footwear—functional, durable and always in style.

Service is a natural result of our commitment to meeting consumer needs. Our Progressive Fit Program, unique in the industry, has built a mutually productive relationship with parents, earning us a dependable, growing base of customers. We are as diligent with our thousands of independent dealers who know us for prompt and complete deliveries. That goodwill is returned by a continuing loyalty to our products.

Children's Footwear continues to respond to increased parent and child awareness of style and preference toward individual expression by amplifying product selection. A Junior Sperry Top-Sider line is being manufactured by this division. Blue Star by Stride Rite, a full selection of functional and fashion footwear with Stride Rite quality at lower cost is under production and will be targeted at a broader share of the children's market.

Stride Rite Retail operates over 200 booteries and leased departments. They allow us to extend quality and service controls from manufacturing directly into retailing. Their success has gained Stride Rite credibility with mall developers and first option for prime space in new malls. That credibility was equally useful in helping independent dealers negotiate and acquire mall locations. Additional Stride Rite Booteries will be introduced in locations not served by independent dealers.

With the decline of the birthrate in the early and mid-1970's shrinking the children's footwear market,

The popularity of action footwear among the country's young people has created an expanding market for these products. ZIPS and Keds from Stride Rite provide this footwear to parents who are concerned about quality, fit and endurance. Built to Stride Rite's standards, ZIPS and Keds



sell not only to the young as all-purpose footwear, but to serious athletes as well. Espadrilles and sandals also have wide appeal among wearers of casual footwear.

Stride Rite saw the need to diversify. At the same time, changing life styles reflecting greater affluence and more leisure time created opportunities in casual and recreational footwear.

With Herman, Stride Rite entered the adult footwear market. Herman work shoes and boots and recreational footwear for outdoorsmen were dominant on the East Coast. Santa Rosa of California, the West Coast version of Herman, was acquired in 1977 and was consolidated into the Herman Division. All manufacturing and administration were concentrated on the East Coast.

Herman is in the midst of a re-engineering program that will strengthen competitiveness in a work shoe and boot market diminished by the economic slump, and the tailing off of the urban/campus boot vogue.

The Herman Survivor line is being expanded to offer more styles. Innovative design employs highest quality leather in a lightweight package that maintains maximum comfort, protection and durability – heightening the Survivor identification with outdoor adventure and rugged individualism.

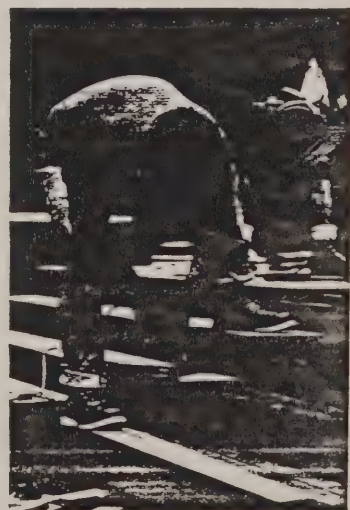
Diversification into recreational adult markets continued with the acquisition of the Sperry Top-Sider line from Uniroyal, Inc., in 1979. Sperry likewise matched the Stride Rite criteria. It was the leading boat shoe, famous for quality and functionability with solid consumer support and a loyal group of dealers in marinas throughout the country. The strong identification of the Sperry name with an appealing, casual lifestyle was seen as a base from which to explore the creation of related lines of onshore, casual footwear for men and women.

Sperry Top-Sider has launched a successful campaign to optimize brand recognition with casual/recreational selections. Boat moccasins, espadrilles, sneakers and sandals in fashion colors have been introduced for women. Male lines offer onshore variations of a standard boat moccasin, loafers and sneakers.

Millions of Americans are spending their leisure time in the great outdoors, many of them wearing rugged outdoor footwear made by the Herman division of Stride Rite. Besides selling



to the outdoorsman, Herman boots enjoy a strong market among Americans who work out of doors, particularly those in the construction industry.



The Sperry Lifestyle look includes an enlarging choice of apparel and accessories that complement the footwear. Knit jerseys, canvas shorts and trousers, windbreakers, foul weather gear, belts and sailing bags are currently being merchandised.

The first Sperry Top-Sider concept shop, which features the Lifestyle look in a space display, opened a little over one year ago in Jordan Marsh, Boston. Other concept shops have since opened or will be opening soon.

Already a successful line in Japan, Sperry is planning campaigns in Europe. Distribution is underway in Greece, Italy and France.

At the time of the Sperry transaction, Stride Rite formed The Keds Corporation, purchased the 'Keds' name from Uniroyal and proceeded with operations as an unconsolidated subsidiary owned and operated by Stride Rite. Royalties were paid to and goods and services purchased from Uniroyal.

Keds moved Stride Rite into the canvas high performance segments of sport and recreational sneakers and shoes. The Keds name, which generations of Americans have grown up with, was well-established.

The International Division was organized in 1979 as a direct response to our growing needs for imports. Bypassing sourcing agents, the division developed more competitive pricing and extended quality control directly into overseas factories. International became responsible for purchasing all athletic footwear for Stride Rite and expanded into private label procurement for national chains and other branded labels. Offices were opened in the Far East. International is expanding its lines from athletic shoes and sneakers into other footwear selections.

With a diverse portfolio of neatly defined and positioned top name products in place, Stride Rite expanded retail operations to broaden select distribution and brand recognition. Overland Trading Co. stores, designed to be a 1980's version of an 1890 general store, debuted in leading shopping centers in

Stride Rite's acquisition of the Sperry Top-Sider line of footwear in 1979 has established a major new market for the Company.



With a strong emphasis on craftsmanship and durability, Sperry products match Stride Rite's reputation for quality. In addition to being the premier name in boat shoes, Sperry footwear is also popular among many of today's college students as a general all-purpose shoe.

late 1979 and 1980. They featured the complete line of Stride Rite's adult casual-recreational footwear - Sperry Top-Sider, Herman/Santa Rosa and Keds - as well as compatible selections from other quality manufacturers. Overland was the first expansion beyond Stride Rite brands into general footwear retailing.

Overland Trading Co. stores have surpassed initial expectations and are in an early stage of growth.

Stride Rite has grown from one to five divisions and one unconsolidated division. It has expanded its traditional children's lines, and emerged as a major factor in adult casual/recreational/work footwear markets and specialty retailing, and has augmented its manufacturing capacity with additional domestic and overseas sources.

This past year has been devoted to management and marketing refinement. Human resources development, customer service, quality control, warehousing and raw materials acquisition have been centralized. An umbrella advertising department was formed. Corporate and divisional headquarters relocated to modern facilities in Cambridge, Massachusetts. A corporate department is being organized to coordinate all manufacturing operations.

Stride Rite has entered the 1980's with the structure and resources to optimally manage opportunity. All divisions are aggressively implementing programs aimed at expanding market positions and defining new revenue objectives. A maturing economy has heightened awareness of value. Consumers are looking for quality products that are comfortable and classical. It is this market that Stride Rite is addressing and with which it is growing.

Selected Financial Data

	1977	1978	1979*	1980*	1981*
Net sales	\$109,875,000	\$122,432,000	\$135,944,000	\$166,018,000	\$194,829,000
Income before federal income taxes	12,049,000	12,710,000	8,240,000	12,050,000	16,521,000
Net income	6,400,000	6,720,000	4,630,000	6,317,000	9,165,000
Common stock dividends	2,756,000	3,045,000	3,299,000	3,587,000	3,882,000
Current assets	51,720,000	59,975,000	76,135,000	75,188,000	86,261,000
Working capital	40,806,000	45,057,000	50,689,000	53,201,000	50,433,000
Property and equipment - net	15,346,000	15,297,000	16,695,000	15,862,000	21,579,000
Total assets	68,489,000	76,541,000	94,972,000	93,777,000	112,062,000
Long-term debt	15,796,000	15,533,000	21,600,000	19,723,000	15,847,000
Stockholders' equity	40,911,000	45,036,000	46,725,000	49,767,000	56,179,000
Net income per common share	2.13	2.23	1.54	2.08	2.95
Dividends per common share	.92	1.00	1.08	1.16	1.24
Book value per common share outstanding	13.55	14.79	15.21	16.10	17.73
Number of employees	3,600	4,100	4,000	4,000	4,300
Number of shareholders	3,600	3,500	3,500	3,600	3,300
Common shares outstanding at end of year	3,019,000	3,045,000	3,072,000	3,092,000	3,168,000

*On a LIFO basis

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity

The Company's working capital requirements have increased significantly during the most recent three years in response to increased business, which includes rapid expansion of its Retail Division, inflation and an acquisition. The seasonal sales pattern characteristic of the footwear industry imposes further peak working capital requirements on the Company. Due to its strong capital position and favorable debt to equity ratio, the Company has always had ready access to short-term bank financing. It expects that these resources will continue to be available in the future.

In order to finance the increased working capital requirements resulting from the 1979 acquisition of the Sperry Top-Sider business, the Company obtained a loan in the amount of \$8,000,000 from a banking institution. The loan which was being repaid at the rate of \$1,000,000 per year with a final installment due in 1982 has been replaced with short-term debt.

The Keds Corporation, an unconsolidated subsidiary requires a substantial amount of working capital (\$30,000,000 to \$40,000,000) which is presently being provided by Uniroyal, Inc. under the terms of an Amended Credit Agreement with that Company and by a bank under a Revolving Loan Agreement. Uniroyal, Inc.'s loan to The Keds Corporation (\$27,966,000 at November 27, 1981) will be reduced by \$417,000 each month until March, 1983 when Uniroyal, Inc.'s obligation to make loans to The Keds Corporation will end. It is expected that the loan from Uniroyal, Inc. and from the bank will provide funds to meet The Keds Corporation working capital requirement during 1982. The Stride Rite Corporation has guaranteed these loans under certain circumstances in an amount not to exceed \$6,000,000 in the aggregate and on January 5, 1982 invested an additional \$1,000,000 in The Keds Corporation.

Capital Resources

The Company's capital expenditures amounted to approximately \$9,000,000 in 1981 and approximately \$3,000,000 in 1979 and in 1980. The 1981 expenditures were in excess of usual amounts because of expenditures in connection with a more rapid expansion of retail facilities, the relocation to new office space, the addition of Sperry Top-Sider manufacturing facilities and special modernization of warehouse facilities.

The funding of capital expenditures has customarily been provided from internal sources, however from time to time because of the capital demands imposed by high rates of inflation and the rapid growth of its own business, the Company has secured term loans to provide the additional capital required.

It is expected that as The Stride Rite Corporation's capital requirements increase because of the continued expansion of its business and that of its subsidiaries, the Company's access to the various capital markets would provide funds as needed.

Results of Operations

Net sales increased in each of the last three years by 11%, 22% and 17% respectively and now exceed the 1978 sales level by over 59%. The Company's two newest divisions, Sperry Top-Sider, Inc. and Stride Rite International, Ltd. which were not part of the Company in 1978 accounted for 23% of the 1981 sales total. The Stride Rite Retail Division with sales of \$48,388,000 in 1981 has more than doubled its sales total in the past three years. Sales of the children's wholesale division have increased in response to inflationary trends, however unit sales have remained relatively stable.

During the past three years there has been some variation in the gross margin rates as they have ranged from a high of 39.6% in 1981 to a low of 34.0% in 1979. The particularly high rate of inflation in 1979 coupled with the Company's decision to value inventory on a LIFO basis was primarily responsible for the lower than average gross margins in that year. A more stable cost basis for the Company's principal raw material (leather), increased sales of Company products at retail and also a changing product mix contributed to the higher gross margin rate in 1981.

Selling and administrative expenses have increased in each of the past three years in response to increased business activity and inflationary trends. The rapid advance in the Company's retail sales, where these expenses are customarily higher in relation to sales revenue, contributed to the increase in these expenses. During 1981, the cost of relocating Company headquarters and the consolidation of three warehousing operations into one resulted in additional expenses which were absorbed.

Interest costs for 1981 were approximately the same as for 1980 as higher interest rates offset lower average borrowings in 1981. Although borrowing levels to support working capital requirements were lower in 1980 than in 1979, interest costs increased \$375,000 because of borrowings related to the acquisition of Sperry Top-Sider as of September 1, 1979. Interest rates were also higher during 1980.

A higher investment tax credit for fiscal 1981 amounting to \$375,000 resulted in a reduced effective tax rate for that year. The higher effective tax rate in 1980 is primarily the result of the after tax loss on the investment in an unconsolidated subsidiary which is included in pre-tax income.

Net income increased in both 1980 and 1981 primarily because of the higher sales levels discussed above, the higher selling prices for Company products and the slower rate of increase in raw material costs. The net income for 1980, however, was adversely affected by an increase in interest expense and the charge to income in the amount of \$540,000, representing the Company's equity in the loss of an unconsolidated subsidiary.

The Stride Rite Corporation
Consolidated Statements of Income

Years Ended November 27, 1981, November 28, 1980 and November 30, 1979

	1981	1980	1979
Net sales	\$194,829,000	\$166,018,000	\$135,944,000
Operating costs and expenses:			
Cost of sales	117,699,000	105,362,000	89,716,000
Selling and administrative	58,101,000	44,663,000	35,352,000
	<u>175,800,000</u>	<u>150,025,000</u>	<u>125,068,000</u>
Income from operations	19,029,000	15,993,000	10,876,000
Other income (expense):			
Interest income	469,000	211,000	149,000
Interest expense	(3,120,000)	(3,257,000)	(2,882,000)
Equity in net loss of unconsolidated subsidiary	-	(540,000)	-
Other	143,000	(357,000)	97,000
	<u>(2,508,000)</u>	<u>(3,943,000)</u>	<u>(2,636,000)</u>
Income before federal income taxes	16,521,000	12,050,000	8,240,000
Provision for federal income taxes	7,356,000	5,733,000	3,610,000
Net income	<u>\$ 9,165,000</u>	<u>\$ 6,317,000</u>	<u>\$ 4,630,000</u>
Net income per share of common stock	<u>\$2.95</u>	<u>\$2.08</u>	<u>\$1.54</u>

Consolidated Statements of Retained Earnings

Years Ended November 27, 1981, November 28, 1980 and November 30, 1979

	1981	1980	1979
Balance at beginning of year	\$46,609,000	\$43,879,000	\$42,548,000
Add:			
Net income	9,165,000	6,317,000	4,630,000
	<u>55,774,000</u>	<u>50,196,000</u>	<u>47,178,000</u>
Deduct:			
Cash dividends on common stock \$1.24 per share (\$1.16 in 1980 and \$1.08 in 1979)	3,882,000	3,587,000	3,299,000
Balance at end of year	<u>\$51,892,000</u>	<u>\$46,609,000</u>	<u>\$43,879,000</u>

The accompanying notes are an integral part of the financial statements.

The Stride Rite Corporation
Consolidated Balance Sheets

November 27, 1981 and November 28, 1980

Assets

	1981	1980
<i>Current Assets:</i>		
Cash	\$ 513,000	\$ 847,000
Accounts and notes receivable, less allowances for sales discounts and doubtful accounts of \$1,239,000 (\$1,180,000 in 1980)	30,307,000	26,777,000
<i>Inventories:</i>		
Finished goods	42,304,000	35,613,000
Work in process	2,892,000	2,827,000
Raw materials and supplies	6,785,000	6,427,000
	<u>51,981,000</u>	<u>44,867,000</u>
 Prepaid federal income taxes	 2,186,000	 1,667,000
Prepaid expenses	<u>1,274,000</u>	<u>1,030,000</u>
Total current assets	86,261,000	75,188,000
 <i>Property and Equipment:</i>		
Land	931,000	966,000
Buildings and improvements	10,144,000	9,912,000
Machinery, equipment and fixtures	12,265,000	9,434,000
Leaseholds and leasehold improvements	10,517,000	6,746,000
	<u>33,857,000</u>	<u>27,058,000</u>
Less accumulated depreciation and amortization	<u>12,278,000</u>	<u>11,196,000</u>
	21,579,000	15,862,000
 <i>Other Assets:</i>		
Funds held for capital expenditures	1,337,000	-
Notes receivable	1,799,000	1,721,000
Other	1,086,000	1,006,000
	<u>4,222,000</u>	<u>2,727,000</u>
	<u>\$112,062,000</u>	<u>\$93,777,000</u>

Liabilities and
Stockholders' Equity

	1981	1980
<i>Current Liabilities:</i>		
Short-term debt	\$ 8,536,000	\$ 1,877,000
Accounts payable	15,428,000	11,906,000
Federal income taxes	1,713,000	809,000
Accrued salaries, wages and commissions	2,122,000	1,879,000
Accrued taxes other than federal income taxes	2,759,000	2,069,000
Dividends payable	982,000	897,000
Other current liabilities	4,288,000	2,550,000
Total current liabilities	35,828,000	21,987,000
 <i>Deferred Federal Income Taxes</i>	 4,208,000	 2,300,000
 <i>Long-Term Debt</i>	 15,847,000	 19,723,000
 <i>Stockholders' Equity:</i>		
Preferred stock, \$1 par value—1,000,000 shares authorized; Issued—none	—	—
Common stock, \$1 par value—4,000,000 shares authorized; Issued—3,256,544 shares	3,257,000	3,257,000
Capital in excess of par value	2,132,000	1,934,000
Retained earnings	51,892,000	46,609,000
	57,281,000	51,800,000
Less cost of 89,005 shares of common stock held in treasury (164,960 in 1980)	1,102,000	2,033,000
Total stockholders' equity	56,179,000	49,767,000
	<u>\$112,062,000</u>	<u>\$93,777,000</u>

The accompanying notes are an integral part of the financial statements.

The Stride Rite Corporation
Consolidated Statements of Changes in Financial Position

Years Ended November 27, 1981, November 28, 1980 and November 30, 1979

	1981	1980	1979
<i>Source of Funds</i>			
Operations:			
Net income	\$ 9,165,000	\$ 6,317,000	\$ 4,630,000
Items not requiring working capital:			
Depreciation and amortization	2,999,000	2,744,000	2,553,000
Deferred federal income taxes	1,908,000	1,099,000	147,000
Equity in net loss of unconsolidated subsidiary ..	-	1,000,000	-
Total from operations	14,072,000	11,160,000	7,330,000
Long-term debt	3,000,000	-	8,000,000
Sale of common stock under stock option and purchase plans	1,038,000	262,000	662,000
Disposal of property and equipment	347,000	1,735,000	33,000
Other - net	87,000	37,000	52,000
	<u>18,544,000</u>	<u>13,194,000</u>	<u>16,077,000</u>
<i>Use of Funds</i>			
Dividends	3,882,000	3,587,000	3,299,000
Additions to property and equipment	8,774,000	3,389,000	3,163,000
Acquisition of companies			
Cash paid (\$6,623,000) less working capital acquired (\$5,989,000)	-	-	634,000
Increase (decrease) in long-term notes receivable. ...	78,000	1,386,000	(128,000)
Payments and transfers to current maturities of long-term debt	6,876,000	1,877,000	1,933,000
Purchase of common stock for treasury	-	-	366,000
Increase in investment	-	-	1,000,000
Increase in other assets	1,702,000	443,000	178,000
	<u>21,312,000</u>	<u>10,682,000</u>	<u>10,445,000</u>
<i>Increase (Decrease) in Working Capital</i>	<u>\$ (2,768,000)</u>	<u>\$ 2,512,000</u>	<u>\$ 5,632,000</u>
<i>Changes in Working Capital</i>			
Increase (decrease) in current assets:			
Cash	(334,000)	(812,000)	260,000
Accounts and notes receivable	3,530,000	1,215,000	4,692,000
Inventories	7,114,000	(1,239,000)	9,623,000
Prepaid federal income taxes	519,000	2,000	971,000
Prepaid expenses	244,000	(113,000)	614,000
	<u>11,073,000</u>	<u>(947,000)</u>	<u>16,160,000</u>
Increase (decrease) in current liabilities:			
Short-term debt	6,659,000	(10,255,000)	10,525,000
Accounts payable	3,522,000	4,532,000	1,167,000
Federal income taxes	904,000	809,000	(1,690,000)
Accrued salaries, wages and commissions	243,000	139,000	(236,000)
Accrued taxes other than federal income taxes ...	690,000	628,000	275,000
Dividends payable	85,000	67,000	69,000
Other current liabilities	1,738,000	621,000	418,000
	<u>13,841,000</u>	<u>(3,459,000)</u>	<u>10,528,000</u>
<i>Increase (Decrease) in Working Capital</i>	<u>\$ (2,768,000)</u>	<u>\$ 2,512,000</u>	<u>\$ 5,632,000</u>

The accompanying notes are an integral part of the financial statements.

1.

Summary of Significant
Accounting Policies

Principles of Consolidation

The consolidated financial statements of The Stride Rite Corporation include the accounts of the Company and all its subsidiaries except The Keds Corporation. The investment in The Keds Corporation is accounted for by the equity method. Inter-company transactions between the Company and its consolidated subsidiaries have been eliminated. Income related to sales to The Keds Corporation has been deferred until merchandise is resold by Keds.

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the 1981 presentation.

Inventory Valuation

Inventories are stated at the lower of cost or market. The cost of inventories is determined principally on the last-in, first-out (LIFO) basis.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are stated at cost. Depreciation is provided by periodic charges to expense over the estimated useful lives of the assets. Depreciation of machinery and equipment is calculated on the sum-of-the-years digits and straight-line methods. Depreciation of buildings, improvements, lasts and fixtures is calculated on the straight-line method. Amortization of leaseholds and improvements to leased property is calculated on the straight-line method and is charged to expense over the terms of the related leases or a shorter period where useful lives are determined to be less than the lease term. Assets capitalized under the terms of leasing arrangements are depreciated over the useful life of the asset or the lease term where applicable.

Net Income Per Common Share

Net income per common share is computed by dividing net income by the average number of common shares and common equivalents outstanding during the year.

Industry Segment Information

The Company operates primarily within the footwear industry, therefore no segment information is required.

2.

Acquisitions

As of September 1, 1979 the Company, through a subsidiary, Sperry Top-Sider, Inc., purchased for cash substantially all of the assets related to the Sperry and Sperry Top-Sider product lines of the Footwear Division of Uniroyal, Inc. Sperry Top-Sider markets a line of high quality casual footwear through independent dealers in the United States. The Company paid approximately \$5,700,000, which was principally for accounts receivable and inventory related to the Sperry business. These assets were purchased at book value. Since the acquisition was accounted for as a purchase, results of operations subsequent to the acquisition date have been included in the consolidated financial statements.

In another unrelated transaction, the Company, through its subsidiary, Stride Rite Retail Corp., acquired, for approximately \$900,000, the assets of Plaza Bootery, Inc., a chain of five retail outlets located in the Washington, D.C. area. Assets were purchased at their book value. Results of operations since acquisition on September 1, 1979 have been included in the consolidated financial statements.

Assuming the acquisitions had taken place on November 30, 1978, net sales for the year ending November 30, 1979 would have been \$148,557,000, net income, \$5,130,000 and net income per share \$1.70. These amounts are unaudited.

3.

Unconsolidated
Subsidiary

On September 7, 1979, The Keds Corporation, a newly formed subsidiary of The Stride Rite Corporation, in which the Company invested \$1,000,000, acquired, as of September 1, 1979, the trademarks associated with the operations of Uniroyal, Inc. in the United States, Canada and Puerto Rico, related to the Keds®, PRO-Keds® and Grasshoppers® product lines. This subsidiary has not been consolidated because The Stride Rite Corporation's present rights and obligations are limited by the terms of the agreements with Uniroyal, Inc. In accordance with the equity method of accounting, The Keds Corporation's operating losses have been reflected in the 1980 consolidated statement of income to the extent of Stride Rite's original investment, net of associated tax benefits of \$460,000.

The Keds Corporation agreed to pay a royalty of \$.15 on each pair of footwear sold in the ordinary course of business until 1989 bearing any of the purchased trademarks and trade names. The maximum amount of royalty is \$30,000,000; there is no minimum royalty. The Keds Corporation also acquired certain other intangible assets and assumed certain other agreements related to the Keds business. However, The Keds Corporation did not assume any of the warehousing or manufacturing operations of Uniroyal, Inc. or purchase the accounts receivable or inventory related to the product lines. Under the terms of the Purchase Agreement, Uniroyal, Inc. agreed to indemnify The Keds Corporation against any losses incurred in its operations through August 31, 1980.

The Keds Corporation and Uniroyal, Inc. entered into a Footwear Purchase Agreement, a Service Agreement, an Agency Agreement, a Credit Agreement, and a Security Agreement. Under the terms of the Credit Agreement, as amended, The Keds Corporation is entitled to a line of credit from Uniroyal, Inc. equal to a borrowing base of \$47,000,000. This line of credit, which was reduced by mandatory prepayments, amounted to \$27,966,000 at November 27, 1981, is evidenced by a Promissory Note bearing interest at the prime rate and is payable in March 1983. The Note requires mandatory prepayments by The Keds Corporation each month in the amount of \$417,000 and a final payment in March, 1983 in the amount of \$21,300,000.

Under the Credit Agreement, and the related Security Agreement, Uniroyal, Inc. has a security interest in substantially all of the assets of Keds; Uniroyal, Inc. has agreed that their note will be subordinated to short-term bank borrowings for working capital purposes, subject to certain limits over certain periods of time.

On January 5, 1982 The Stride Rite Corporation invested an additional \$1,000,000 in The Keds Corporation and also agreed to guarantee loans up to \$6,000,000 made by a bank to The Keds Corporation under certain circumstances where loan security requirements are not met and agreed to guarantee loans made by Uniroyal, Inc. to The Keds Corporation up to \$4,000,000. However, in no event will The Stride Rite Corporation's obligation to repay The Keds Corporation loans exceed \$6,000,000 in the aggregate to both Uniroyal, Inc. and the bank. The Stride Rite Corporation also granted to Uniroyal, Inc., as additional collateral, a security interest in the shares of common stock of The Keds Corporation held by The Stride Rite Corporation.

The following is a summary of The Keds Corporation operations and its financial position:

Operations	Fiscal Year Ended November 27, 1981	Fiscal Year Ended November 28, 1980	Three Months Ended November 30, 1979
Net sales*	\$85,385,000	\$63,909,000	\$ 1,836,000
Cost of sales*	58,011,000	45,986,000	1,264,000
Operating expenses*	23,597,000	17,059,000	886,000
Income (loss) from operations . .	3,777,000	864,000	(314,000)
Interest income (expense) - net	(7,212,000)	(3,976,000)	42,000
Other income (expense)	(151,000)	34,000	-
Reimbursement received from (repaid to) Uniroyal, Inc. . . .	-	(272,000)	272,000
Net loss	<u>\$ 3,586,000</u>	<u>\$ 3,350,000</u>	<u>\$ 0</u>

*Not including net sales and operating expenses under the Agency Agreement with Uniroyal, Inc. as follows:

Net Sales	-	\$31,007,000	\$15,997,000
Operating Expenses	-	10,012,000	5,514,000

Operating expenses include \$550,000 for 1981, \$480,000 for 1980 and \$75,000 for 1979 representing a management fee charged by The Stride Rite Corporation for corporate support.

In addition, Keds was billed \$1,453,000 in 1981, \$920,000 in 1980, and \$30,000 in 1979 by Stride Rite International, Ltd., a wholly-owned subsidiary of The Stride Rite Corporation, for services related to the purchase of footwear from foreign vendors.

In the fourth quarter of 1980, Keds adopted the last-in, first-out (LIFO) method for determining the cost of its inventories. The change in accounting method from first-in, first-out (FIFO) was made to match more closely current costs with current revenues. The effect of the change to LIFO was to reduce inventories at November 28, 1980 and to increase the net loss for fiscal year 1980 by \$1,604,000.

During 1981 the LIFO reserve increased by \$618,000 to \$2,222,000 at November 27, 1981 resulting in a higher net loss than would have been determined under the first-in, first-out (FIFO) method.

Financial Position	November 27, 1981	November 28, 1980
Current assets	\$43,599,000	\$38,849,000
Other assets	341,000	348,000
Total	<u>\$43,940,000</u>	<u>\$39,197,000</u>
Current liabilities	26,910,000	12,547,000
Long-term liabilities	22,966,000	29,000,000
Net equity (deficit)	(5,936,000)	(2,350,000)
Total	<u>\$43,940,000</u>	<u>\$39,197,000</u>

4.

Inventories

At November 27, 1981 and November 28, 1980 the cost of inventories was determined principally on the last-in, first-out (LIFO) basis. During 1981, the LIFO reserve increased by \$1,111,000 to \$7,277,000 at November 27, 1981. If all inventories had been computed on a first-in, first-out (FIFO) basis net income would have been higher by \$571,000 (\$.18 per share) in 1981, \$320,000 (\$.10 per share) in 1980 and \$2,790,000 (\$.93 per share) in 1979.

At November 27, 1981 and November 28, 1980 certain inventory quantities were lower than the preceding years. Reduction in these inventories resulted in the sale of products carried at costs prevailing in prior years which were lower than current costs. As a result of this reduction, net income for 1981 and 1980 was increased by \$218,000 or \$.07 per share and \$504,000 or \$.16 per share respectively.

5.

Debt

Short-term and long-term debt at November 27, 1981 and November 28, 1980 consisted of the following:

	1981	1980
Short-term:		
Notes payable—bank	\$ 7,659,000	—
Current maturities of long-term debt.	877,000	\$ 1,877,000
Total	<u>\$ 8,536,000</u>	<u>\$ 1,877,000</u>
Long-term:		
8.45% Senior Notes due 1997	12,500,000	13,333,000
Term loan due 1982.	—	6,000,000
Industrial revenue bonds	3,000,000	—
Capitalized lease obligation	347,000	390,000
Total	<u>\$15,847,000</u>	<u>\$19,723,000</u>

The Company utilizes short-term bank loans to finance seasonal working capital requirements. During 1981 the weighted average amount of such borrowings was \$3,800,000 (\$6,100,000 in 1980 and \$10,900,000 in 1979). The maximum short-term borrowing in 1981 was \$8,200,000 compared to \$12,200,000 in 1980 and \$23,800,000 in 1979. Interest charges are at rates currently extended to prime borrowers. The average interest paid on these loans was 18.2% during 1981, 13.3% in 1980 and 12.1% in 1979. There is no formal line of credit or compensating balance agreement with the Company's principal bank, but two other banks that have extended lines of credit to the Company amounting to \$6,000,000 require either fee or balance compensation for those lines. The average interest rate on short-term bank loans outstanding at November 27, 1981 was 12.5% (14.8% at November 30, 1979).

The 8.45% Senior Notes due 1997 represent loans due to several institutional lenders with mandatory prepayments amounting to \$833,000 per year. An agreement signed in connection with the loan requires that certain levels of working capital be maintained, restricts the amount of other borrowings and lease obligations and limits dividend payments and treasury stock purchases. Such dividend payments and treasury stock purchases may not reduce stockholders' equity below \$33,537,000. The third prepayment due on November 1, 1982 is included in current maturities of long-term debt.

During 1981, the Company financed the purchase of certain equipment and improvements with two industrial revenue development bonds totaling \$3,000,000 due in 1992 and 1996. Principal is payable quarterly commencing in 1984 and in 1985 and interest is generally at 65% of the banks' prime rate with a minimum rate of 9% on \$1,000,000 of the loans. Unexpended proceeds of one bond totaling \$1,312,000 were placed in escrow and that amount including interest earned (\$1,337,000) is included in other assets.

On October 1, 1979, the Company obtained a term loan in the amount of \$8,000,000 from a banking institution with interest at the rate of one-quarter percent above the bank's prime lending rate. The average interest rate during 1981 was 19.7% (15.3% in 1980). This loan was repaid in October 1981.

Amounts due on long-term debt in future years are as follows: 1983 - \$877,000, 1984 - \$994,000, 1985 - \$1,158,000, 1986 - \$1,158,000, 1987 - \$1,158,000, and thereafter to 1997 - \$10,502,000.

The capitalized lease obligation - \$347,000 at November 27, 1981 and \$390,000 at November 28, 1980 - represents the present value of the lease obligation described in Note 7. This lease was capitalized at an interest rate of 5¼%. In addition, the current portion of capitalized lease obligations (\$43,000 in 1981 and 1980) is included in short-term debt.

6.

Stockholders' Equity

Changes in stockholders' equity, exclusive of retained earnings, for the three years ended November 27, 1981 were as follows:

	Capital in Excess of Par Value	Treasury Stock at Cost
Balance, December 1, 1978	<u>\$1,779,000</u>	<u>\$2,548,000</u>
Issue (net of 5,917 shares repurchased) of 14,008 shares of Common Stock under 1975 Executive Incentive Stock Purchase Plan	32,000	(160,000)
Issue of 40,064 shares of Common Stock under the Employees Stock Purchase Plan	(21,000)	(491,000)
Tax benefit in connection with 1975 Executive Incentive Stock Purchase Plan	62,000	-
Purchase of 27,000 shares of Common Stock for Treasury	-	366,000
Balance, November 30, 1979	<u>1,852,000</u>	<u>2,263,000</u>
Issue (net of 2,700 shares repurchased) of 19,175 shares of Common Stock under 1975 Executive Incentive Stock Purchase Plan	32,000	(230,000)
Tax benefit in connection with 1975 Executive Incentive Stock Purchase Plan	50,000	-
Balance, November 28, 1980	<u>1,934,000</u>	<u>2,033,000</u>
Issue (net of 3,475 shares repurchased) of 24,825 shares of Common Stock under 1975 Executive Incentive Stock Purchase Plan	90,000	(299,000)
Issue 51,130 shares of Common Stock under the Employees Stock Purchase Plan	16,000	(632,000)
Tax benefit in connection with 1975 Executive Incentive Stock Purchase Plan	92,000	-
Balance, November 27, 1981	<u>\$2,132,000</u>	<u>\$1,102,000</u>

7.

Leases

The Company leases office and retail store space, certain factory space and equipment. A portion of the retail store space is sublet. Some of the leases have provisions for additional rentals based on increased property taxes and the leases for retail store space generally require additional rentals based on sales volume in excess of certain levels. Manufacturing equipment leases generally require additional rentals based on usage. Some leases have renewal options.

Rent expense for operating leases for the three years ended November 27, 1981 was as follows:

	1981	1980	1979
Base rental	\$5,973,000	\$4,335,000	\$3,656,000
Additional rentals based on retail sales volumes and equipment usage	1,500,000	1,222,000	892,000
Less rental income from subleases	(1,026,000)	(799,000)	(699,000)
Total rental expense	<u>\$6,447,000</u>	<u>\$4,758,000</u>	<u>\$3,849,000</u>

The future minimum rental payments for all non-cancellable leases and the amounts due from tenants on related subleases at November 27, 1981 are as follows:

Minimum Rental Payments	Capital Leases	Operating Leases
1982.....	\$ 64,000	\$ 6,544,000
1983.....	62,000	6,104,000
1984.....	60,000	5,723,000
1985.....	57,000	5,478,000
1986.....	55,000	5,149,000
Later years.....	<u>194,000</u>	<u>30,565,000</u>
Total minimum rental payments.....	492,000	59,563,000
Less rental due from subleases.....	-	<u>3,038,000</u>
Net minimum rental payments.....	<u>\$492,000</u>	<u>\$56,525,000</u>

The present value of future minimum rental payments on a capital lease amounts to \$390,000 after deducting interest in the amount of \$101,000. This lease was capitalized at a rate of 5¼%. The present value of future minimum rental payments is included in long-term debt (\$347,000) and short-term debt (\$43,000) on the consolidated balance sheet. The related asset and accumulated depreciation balances (\$543,000 and \$210,000 in 1981 and \$650,000 and \$280,000 in 1980), representing principally buildings and improvements, are included in property and equipment in the consolidated balance sheets.

On November 18, 1980, the Company signed a 15-year lease which provides for the rental of office space. The lease commenced during 1981 and requires fixed rental payments averaging \$1,762,000 per year over the first five years and \$1,990,000 per year over the next ten years, an aggregate fixed rent of approximately \$28,700,000 over the initial 15-year term of the lease. The Company has the option to extend the lease for three successive five-year terms. A Director of the Company is a member of an association which is the general partner that controls the property.

The Company is contingently liable as guarantor of certain of its customers' store leases which expire at various dates from 1981 to 1999. The average annual rentals under these leases approximate \$114,000 through 1986 and decrease thereafter to 1999.

8.

Pensions

The Company has seven pension plans covering eligible full-time employees. The Company's policy is to fund pension costs accrued. Pension expense, which includes amortization of prior service costs over a thirty-year period, amounted to \$667,000 in 1981, \$708,000 in 1980 and \$793,000 in 1979. The cost of providing additional benefits in some of the plans was offset by a reduction in the number of participants in some of the plans and in 1980 by an increase in the assumed rate of return on assets from 5½% to 6¼%.

A summary of accumulated plan benefits and plan net assets as of January 1, 1981 and January 1, 1980, the dates of the most recent actuarial valuations, is as follows:

	1981	1980
Actuarial present value of accumulated plan benefits		
Vested.....	\$8,143,000	\$7,575,000
Non-vested.....	<u>720,000</u>	<u>822,000</u>
	<u>\$8,863,000</u>	<u>\$8,397,000</u>
Net assets available for benefits.....	<u>\$8,590,000</u>	<u>\$6,970,000</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6¼%.

9.

Stock Purchase Plans and Stock Options

An Employee Stock Purchase Plan permits eligible employees to elect to subscribe for an aggregate of 190,000 shares of common stock of the Company. Under the Plan, participating employees may authorize the Company to withhold either 2½% or 5% of their earnings for a one- or two-year payment period for the purchase of shares. At the conclusion of the period, the employee may purchase shares at the lesser of 85% of the market value of the Company's common stock on his entry date into the Plan or ten days prior to the end of the payment period. The Board of Directors may set a minimum price for the stock.

During 1981, 51,130 shares were issued to 399 employees participating in the Plan who paid \$12.60 and \$13.00 per share, an aggregate of \$648,000 for these shares and during 1979, 40,064 shares were issued to 285 employees participating in the Plan. Employees paid \$11.69 or \$13.00 per share, an aggregate of \$470,000 for these shares. Funds are currently being withheld from participating employees during a new payment period ending August 31, 1983. As of November 27, 1981, \$147,000 had been withheld from employees' earnings and if all participating employees had been allowed to exercise their stock purchase rights, 6,947 shares could have been purchased at \$21.14 per share; 85% of the closing price on the New York Stock Exchange on November 27, 1981. At November 27, 1981, 168,136 shares had been purchased under the plan and 21,864 shares could be purchased by participating employees.

Under the 1975 Executive Incentive Stock Purchase Plan, rights to purchase up to an aggregate of 250,000 shares of the Company's common stock may be granted from time to time to officers and other key employees of the Company at a price determined by the Board of Directors. This price may not be less than the current par value of the Company's common stock which is \$1 per share.

Rights to purchase shares must be exercised within sixty days of the grant date, cannot be transferred and must be paid for in full at the time of exercise. Shares purchased under the Plan are subject to restrictions. They may not be sold, pledged or otherwise transferred and generally must be resold to the Company upon termination of employment. Restrictions on transfer of shares and the obligation to resell shares to the Company will lapse as to 33 1/3 % of the shares purchased at the end of the third year, the fourth year and the fifth year following purchase.

The Company records as deferred compensation the difference between the fair market value at date of grant and purchase price of shares issued under the Plan. Deferred compensation is being amortized over a five-year period.

During 1979, 1980 and 1981 rights to purchase 19,925, 21,875 and 28,300 shares of common stock at a price of \$1 per share were granted under the Plan and all such rights were exercised. During 1979, 1980 and 1981, 5,917, 2,700 and 3,475 shares were repurchased in accordance with the terms of the Plan.

At November 27, 1981, 136,791 shares had been purchased under the Plan and rights to purchase an additional 113,209 shares could be granted.

10.

Federal Income Taxes

Noncurrent deferred income taxes and prepaid income taxes are provided when there are timing differences between financial and income tax reporting. The provisions for federal income taxes consist of the following:

	1981	1980	1979
Current	\$5,967,000	\$4,636,000	\$4,434,000
Noncurrent	<u>1,389,000</u>	<u>1,097,000</u>	<u>(824,000)</u>
	<u>\$7,356,000</u>	<u>\$5,733,000</u>	<u>\$3,610,000</u>

Deferred federal income taxes result from the use of accelerated depreciation methods for certain buildings and equipment for federal income tax purposes, whereas the straight-line method is used for financial reporting purposes, from application of the equity method of accounting, and also from expensing, for federal income tax purposes, purchases of lasts, the costs of which are depreciated over two years for financial reporting purposes.

Prepaid federal income taxes result from certain charges to expense for financial reporting purposes (provisions for doubtful accounts, sales discount, inventory markdowns, vacation pay and deferred compensation) which are not currently deductible for federal income tax purposes.

In 1981 and 1980, the noncurrent provision includes \$1,650,000 and \$1,081,000, respectively, related to the losses of The Keds Corporation in excess of the amount recognized in the financial statements under the equity method. In 1979, the noncurrent provision includes \$869,000 related to inventory valuation reserves which were not currently deductible for tax purposes because of the change to the LIFO method of inventory costing.

Investment tax credit (\$375,000 in 1981, \$177,000 in 1980, and \$154,000 in 1979) resulting from capital additions is applied as a direct reduction of income tax expense at the time the asset is placed in service.

11.

Quarterly Data -
Unaudited

The following tables provide quarterly data for the fiscal years ended November 27, 1981 and November 28, 1980.

	First	Second	Third	Fourth
1981				
Net sales	\$42,832,000	\$51,792,000	\$52,405,000	\$47,800,000
Cost of sales	27,295,000	32,073,000	32,225,000	26,106,000
Net income	1,431,000	1,829,000	2,932,000	2,973,000
Net income per share of common stock . . .	.47	.59	.94	.95
Quarterly dividend . . .	.31	.31	.31	.31
1980				
Net sales	\$36,393,000	\$40,386,000	\$47,118,000	\$42,121,000
Cost of sales	24,122,000	26,628,000	31,582,000	23,030,000
Net income	1,110,000	835,000	2,006,000	2,366,000
Net income per share of common stock . . .	.37	.27	.66	.78
Quarterly dividend . . .	.29	.29	.29	.29

During the fourth quarter of 1980, the LIFO adjustment to inventories resulted in a reduction in cost of sales in the amount of \$1,276,000 whereas the estimated LIFO adjustments during the first three quarters increased cost of sales by \$1,923,000. Net income in the fourth quarter was \$689,000 (\$.23 per share) higher as a result of this adjustment.

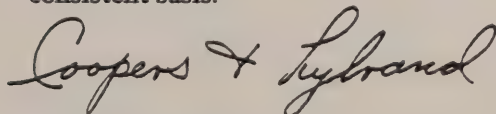
Also during the fourth quarter of 1980, the Company reduced the carrying value of its investment in an unconsolidated subsidiary resulting in a loss of \$540,000 (\$.18 per share).

Auditors' Report

To the Stockholders and Directors
The Stride Rite Corporation:

We have examined the consolidated balance sheets of The Stride Rite Corporation at November 27, 1981 and November 28, 1980, and the related consolidated statements of income, retained earnings, and changes in financial position for each of the three years in the period ended November 27, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Stride Rite Corporation at November 27, 1981 and November 28, 1980, and the results of its operations and the changes in its financial position for each of the three years in the period ended November 27, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.



Boston, Massachusetts
February 5, 1982

The Stride Rite Corporation

Directors

Arnold Hiatt
President and Chief Executive Officer

Steven B. Nichols
Vice President - Merchandising

Walter J. Salmon
Stanley Roth, Sr.,
Professor of Retailing,
Harvard Business School

Russell G. Simpson
Partner, Goodwin, Procter & Hoar

Myles J. Slosberg
Executive Vice President

Samuel L. Slosberg
Chairman of the Board of Directors

Kay Worden
Self-Employed Sculptor

Mortimer B. Zuckerman
Chairman of the Board,
Boston Properties

Officers

Samuel L. Slosberg
Chairman of the Board of Directors

Arnold Hiatt
President and Chief Executive Officer

Myles J. Slosberg
Executive Vice President

John J. Phelan
Vice President and Treasurer

Steven B. Nichols
Vice President - Merchandising

Lyle J. Sipple
Vice President - Manufacturing

William E. Dawson
Assistant Treasurer

James J. Tinagero
Assistant Treasurer

Russell G. Simpson
Clerk and Secretary

James F. Ridge
Assistant Secretary

Corporate Committees

Executive Committee
Arnold Hiatt
Steven B. Nichols
Walter J. Salmon
Russell G. Simpson
Myles J. Slosberg
Kay Worden
Mortimer B. Zuckerman

Compensation Committee
Walter J. Salmon
Russell G. Simpson
Kay Worden
Mortimer B. Zuckerman

Audit Committee
Walter J. Salmon
Kay Worden
Mortimer B. Zuckerman

Subsidiaries

Joseph M. Herman Shoe Company, Inc.
The Keds Corporation
Sperry Top-Sider, Inc.
Stride Rite International, Ltd.
Stride Rite Footwear, Inc.
Stride Rite Retail Corp.

Corporate Information

Executive Offices
5 Cambridge Center
Cambridge, Mass. 02142

General Counsel
Goodwin, Procter & Hoar,
Boston, Massachusetts

Auditors
Coopers & Lybrand,
Boston, Massachusetts

*Transfer Agent, Registrar and
Dividend Disbursing Agent*
The First National Bank of Boston,
Boston, Massachusetts

Stock Listing

The Stride Rite Corporation's common stock is listed on the New York Stock Exchange and is identified by the symbol SRR.

Annual Meeting

The Annual Meeting of Stockholders of The Stride Rite Corporation will be held on Thursday, April 1, 1982 at 10 A.M. in the Auditorium of the First National Bank of Boston, 100 Federal Street, Boston, Massachusetts.

Automatic Dividend Reinvestment and Stock Purchase Plans

For information about the plans contact The Stride Rite Corporation.

Form 10-K

The Stride Rite Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available without charge upon request and may be obtained by writing to the Company's Executive Offices.

Common Stock Prices

Quarter	1981		1980	
	High	Low	High	Low
1st	18 $\frac{3}{8}$	14 $\frac{3}{4}$	14 $\frac{7}{8}$	12 $\frac{1}{2}$
2nd	23 $\frac{3}{4}$	16 $\frac{1}{2}$	13 $\frac{3}{4}$	11 $\frac{7}{8}$
3rd	29 $\frac{7}{8}$	23 $\frac{7}{8}$	14 $\frac{1}{2}$	12 $\frac{5}{8}$
4th	26 $\frac{1}{4}$	23 $\frac{1}{2}$	15 $\frac{3}{4}$	13 $\frac{5}{8}$

Based on closing prices on the New York Stock Exchange - Composite.

About Stride Rite

The Stride Rite Corporation is the largest manufacturer and retailer of high quality children's footwear in the United States, a major producer of adult work and outdoor recreational shoes and boots, and a leading marketer of children's and adult athletic and casual footwear.

The Company's children's footwear, worn primarily by youngsters between six months and 14 years of age, is sold through Company-owned Stride Rite booteries, leased departments in leading department stores and other retail outlets across the country operated by independent dealers.

Adult work and outdoor recreational shoes and boots are manufactured by Herman Shoe, which produces one of the leading high quality brands in the United States. These products are sold through independent retail outlets as well as Company-owned stores.

Athletic and casual footwear are distributed through a variety of outlets, including shoe stores, department stores, sporting goods stores and marine dealers.

MEMORANDUM

MARCH 18, 1982

TO: BOSTON REDEVELOPMENT AUTHORITY

FROM: ROBERT J. RYAN, DIRECTOR

SUBJECT: SOUTH END PROJECT, MASS. R-56
FINAL DESIGNATION OF STRIDE-RITE CORPORATION AS
REDEVELOPER OF REUSE PARCEL 41D

SUMMARY: This memorandum requests that the Authority finally designate Stride-Rite Corporation as redeveloper of Parcel 41D in the South End Project, Mass. R-56

On June 14, 1979, Stride-Rite Corporation of 960 Harrison Avenue, Roxbury, was tentatively designated as redeveloper of Parcel 41D in the South End Urban Renewal Area, Project No. Mass. R-56. Parcel 41D is located at the corner of Pike and Fellows Streets and consists of approximately 11,318 square feet of vacant land.

Stride-Rite Corporation has now proposed to develop Parcel 41D for parking and truck storage and landscaping. Also, in an effort to enhance the physical conditions of the area, the company will suitably screen and fence Parcel 41D.

Therefore, it is the opinion of the staff that this proposal will improve the physical fabric of the area and facilitate the company's continuing growth.

According to the financial information provided by Stride-Rite Corporation, it is indicated that this company has the financial resources to carry out its proposal. Also, in compliance with all aspects and specifications of the Urban Renewal Plan, Stride-Rite Corporation's submitted drawings have been reviewed and approved by the Authority's Urban Design Department.

I, therefore, recommend that Stride-Rite Corporation be finally designated as redeveloper of Parcel 41D in the South End Urban Renewal Area and that the final working drawings be approved.

An appropriate Resolution is attached.

